

Message Text

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ORIGIN EUR-25

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FM SECSTATE WASHDC

TO USMISSION NATO PRIORITY

INFO ALL NATO CAPITALS

USNMR SHAPE

USCINCEUR

USLOSACLANT

C O N F I D E N T I A L STATE 195252

E.O. 11652:GDS

TAGS: MCAP, NATO

SUBJECT: BURDENSARING

REFS: A. USNATO 3875; B. USNATO 4242; C. USNATO 3932;

D. ROME 9749

1. THE QTE TRUE UNQTE DEFICIT IN THE US MILITARY BOP WITH
EUROPEAN NATO COUNTRIES IN 1972 SHOULD NOT BE AN ISSUE
BEFORE THE BURDENSARING STUDY GROUP. WE ARE PREPARED TO
EXPLAIN FURTHER OUR CONCLUSION THAT WE HAD A \$1.5 BILLION
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DEFICIT IN THAT ACCOUNT IN 1972. WE DO NOT WISH TO INVOLVE

OURSELVES IN LENGTHY DEBATE ON BOP FIGURES WHICH THE OTHER ALLIES HAVE SUBMITTED TO THE STUDY GROUP, ALTHOUGH AN ANALYSIS OF THE VARIOUS FIGURES SUBMITTED MAY BE VALUABLE TO THE STUDY GROUP IN UNDERSTANDING THE COMPLEXITY AND POSSIBLE VARIATIONS IN CALCULATING THE MILITARY BOP.

2. RATHER THAN STUDYING THE HISTORY OF THE SITUATION, WE BELIEVE IT IS NOW TIME FOR THE STUDY GROUP TO TURN ITS ATTENTION TO THE DEFICIT WHICH WE ANTICIPATE IN FY 74 IN OUR MILITARY BOP WITH EUROPEAN NATO AND TO EXAMINE WAYS TO OFFSET THAT DEFICIT. TO ASSIST NATO IN THOSE ENDEAVORS WE HAVE PROVIDED OUR ESTIMATE OF US MILITARY EXPENDITURES IN EUROPE WHICH WILL ENTER THE BALANCE OF PAYMENTS.

IN DECIDING WHAT SHOULD AND SHOULD NOT BE INCLUDED IN NATO'S CALCULATION OF OUR DEFICIT FOR FY 74, WE MUST CONSIDER THE ACCEPTABILITY OF OUR APPROACH TO THOSE INFORMED SEGMENTS OF AMERICAN OPINION, INCLUDING CONGRESS, WHO ARE CONCERNED OVER THE US MILITARY BOP OUTFLOW. WE DO NOT BELIEVE THEY WOULD APPRECIATE THE FINE DISTINCTIONS (SUGGESTED BY THE ALLIES IN REFS A AND B) BETWEEN US MILITARY BOP OUTFLOW TO EUROPE (WIDELY PUBLICIZED AS \$1.5 BILLION IN 1972) AND DIRECT COSTS QTE RESULTING FROM THE STATIONING OF OUR FORCES IN EUROPE UNQTE (WHICH MIGHT BE SOME LESSER, YET UNDETERMINED SUM). IN ORDER TO ACHIEVE MAXIMUM EFFECTIVENESS, THE BURDENSARING ARRANGEMENTS WE MAKE WITH OUR ALLIES MUST MEET COMMON SENSE STANDARDS OF EQUITY AND CONSISTENCY. WE BELIEVE OUR INTERESTS AND THOSE OF THE ALLIES CONVERGE ON THIS POINT. IT IS IN THIS SPIRIT THAT YOU SHOULD PRESENT OUR VIEWS OF THE METHOD OF ACCOUNTING WHICH THE STUDY GROUP SHOULD APPLY TO THE US PURCHASE OF HARRIER AND THE PURCHASE OF US MILITARY EQUIPMENT BY THE ALLIES UNDER COMMERCIAL CONTRACTS.

3. YOU SHOULD INFORM THE STUDY GROUP THAT WE AGREE WITH THE ALLIES' CONTENTION (REF C) THAT VALID GOVERNMENTAL PURCHASES OF US MILITARY GOODS DIRECTLY FROM US FIRMS CONSTITUTE OFFSETTING RECEIPTS IN OUR MILITARY BOP ACCOUNT. OF COURSE AGREEMENT MUST BE REACHED BETWEEN US AND ALLY

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CONCERNED OF WHAT CONSTITUTES A QTE VALID GOVERNMENTAL PURCHASE OF US MILITARY GOODS DIRECTLY FROM US FIRMS UNQTE. FYI - WE HAD RESISTED THIS CONCESSION EARLIER BECAUSE IT IS DIFFICULT TO ESTABLISH A REPORTING SYSTEM IN THE COMMERCIAL ACCOUNT WHICH CLEARLY IDENTIFIES THOSE TRANSACTIONS WHICH ARE QTE MILITARY UNQTE. ALSO, SALES OF MILITARY EQUIPMENT ARE OFTEN ACCOMPANIED BY THEIR OWN OFFSET ARRANGEMENTS IN WHICH THE US SELLER AGREES TO PURCHASE

PARTS OR EQUIPMENT FROM A MANUFACTURER IN THE BUYING COUNTRY, OR TO ESTABLISH PRODUCTION FACILITIES OF ONE KIND OR ANOTHER IN THE BUYING COUNTRY, OR OTHERWISE TO OFFSET SOME PART OF THE SALE. END FYI. WE AGREE TO CONSIDER REASONABLE ADJUSTMENTS BASED ON COMMERCIAL PURCHASES PROVIDED THE ARTICLES PURCHASED QUALIFY UNAMBIGUOUSLY AS MILITARY ITEMS UNDER THE NATO DEFINITION. THE ALLIES WOULD HAVE TO PROVIDE REASONABLE SUPPORT FOR THEIR FIGURES. IN THE EVENT ALLIES' FIGURES FOR FUTURE COMMERCIAL PURCHASES GROSSLY EXCEED US ESTIMATES FOR SUCH SALES, THE ALLIES SHOULD BE PREPARED TO MAKE EXPERTS AVAILABLE FOR FULL DISCUSSION OF THEIR FIGURES. THE FRG REPORTS ITS COMMERCIAL PURCHASES OF MILITARY EQUIPMENT AND UPON MUTUAL AGREEMENT WE CREDIT SUCH PURCHASES IN THE US/FRG OFFSET AGREEMENT. WE SUGGEST THAT NATO COUNTRIES SUBMIT THEIR DATA ON FUTURE COMMERCIAL PURCHASES SO THAT WE MAY EXAMINE THEM.

4. BY THE SAME TOKEN, WE MUST INSIST THAT US PURCHASES OF EUROPEAN MILITARY EQUIPMENT SUCH AS THE HARRIER ALSO BE COUNTED AS A US MILITARY EXPENDITURE ENTERING THE BOP. TO EXCLUDE HARRIER MIGHT BE VIEWED AS AN EFFORT BY THE ADMINISTRATION AND THE ALLIES TO STRETCH A POINT SO AS TO CAST THE BOP SITUATION IN THE MOST FAVORABLE LIGHT. AS TO THE RESALE OF HARRIERS TO SPAIN (REF B), WE HAVE NOT INCLUDED OUR EXPENDITURES IN SPAIN IN THE NATO BURDEN-SHARING DATA BASE EVEN THOUGH MOST US FORCES IN THAT COUNTRY HAVE IMPORTANT NATO MISSIONS. THEREFORE, TO COUNT SELECTED RECEIPTS FROM SPAIN WOULD BE A GLARING INCONSISTENCY. THE CONSEQUENCES FOR THE CREDIBILITY OF THIS PROJECT FAR OUTWEIGH THE MARGINAL GAIN ON THE RECE
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